

B8081—MANAGING IN ASIA: ISSUES AND ETHICS



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INTRODUCTION

Asia is a vast region with varying political structures, levels of economic development, and cultural and social mores. A decision, or strategy, based on a generalization may result in success in one country, and failure in another. In an attempt to avoid gross generalizations, this report is organized by three Asian sub-regions: Northeast Asia, Southeast Asia, and South and Central Asia. The states of these sub-regions share not only geographic proximity, but also historical legacies and cultural identities that are more robust than pan-Asian observations, which at times, are contradictory.

Each sub-section of this report includes a discussion of the political, economic, and social/cultural issues that will be important in the next decade. Noticeably absent in this report are discussions of Russia and the United States (US). Although both states clearly share proximity, legacy, and in some cases, identity with many of the states discussed in this report, we believe that their inclusion distracts (and in some cases tempers) observations that are distinctly Asian. There is no doubt that the interaction between these two powers that “frame” Asia will influence the events of the next decade. The value in examining these political, economic, and social relationships in more detail, however, should be left for another time.

DEFINITION OF SUB-REGIONS

NORTHEAST ASIA

Geography	China and the Special Administrative Region of Hong Kong, Japan, Mongolia, North and South Korea, Taiwan.
Historical Legacy	Marked by various attempts and success of internal colonization, including Japan's most recent occupation of Korea and Taiwan in the late 19th and early 20 th Century, and China during WWII.
Shared Identity	Common belief in Buddhism, dominant patriarchal social structure, and importance of education. Apart from Mongolia and North Korean, NEA states have experienced periods of rapid industrialization during the last two decades.

SOUTHEAST ASIA

Geography	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Papua New Guinea, Singapore, Thailand, and Vietnam
Historical Legacy	Apart from Thailand, these nations are the creation of various western powers who colonized the region on arbitrary geographic, economic, and cultural terms during the early- to mid-20 th Century. The result are states where domestic regionalism has undermined the development of strong centralized governments.
Shared Identity	Culturally, the sub-region is a diverse mix of religions, ethnicities, and social mores. These include beliefs in Animism, Catholicism, and Islam, social structures based on ethnic units as varied as clans, tribes, and something else. Economic development within SEA has also varied, with states such as Singapore and Thailand outpacing neighboring Myanmar, Laos, and Indonesia

SOUTH AND CENTRAL ASIA

Geography	Afghanistan, Bangladesh, Bhutan, India, Kazakhstan, Kyrgyzstan, Nepal, Pakistan, Sri Lanka and Tajikistan.
Historical Legacy	Historically diverse, however, vast portions of the sub-region has been united thrice—first under Mughal control beginning in the 13 th Century, subsequent colonization by Great Britain and Russia during the 17 th through 20 th Centuries, and most recently under the former Soviet Union in the mid 20 th Century. The area has played the part of buffer or gateway for Europeans wishing access to greater Asia.
Shared Identity	Experienced the spread of Buddhism from the Hindu-dominated sub-continent. Today, the region is dominated by three main groups: Buddhists, Hindus, and Muslims. The Hindu-Muslim relationship continues to define the region. Economically, the region can also be divided into three sectors: developing states with weak economic power, the heavily industrialized sub-continent, and the Central Asian states, whose rich in natural resources are just being tapped.

POLITICAL OUTLOOK FOR NEA

Overview of Political Observations

- NEA will be marked by increasing political integration. China will take an increasing role as regional political leader. A socialization effect will occur as new inter-governmental organizations provide informal diplomacy opportunities for inside representatives. This will especially be important for the stabilization of two of NEA's most sensitive political issues—the Taiwan question, and North Korea.
- Political sensitivity will continue in the next decade. Items to watch will be responses to WWII related-issues, China's "Century of humiliation" at the hands of western powers, human rights commentary, and domestic political criticism.
- Democratizing states will create a growing expectation that the use of force against each other will become unimaginable.

Key Considerations

China

In a transitional, rising status, China will focus on becoming a responsible world power:

- President Hu Jintao will continue Zemin's Three Represents policy of peaceful international economic development in attempts to cement domestic legitimization.
- A growing middle class will demand political accountability. This will result in increasing transparency within the legal system.
- Democratization will occur slowly, managed by the communist party.
- China will maintain its status quo stance on Taiwan. The mainland will deter independence versus aggressively compelling unification. While remaining militarily firm on the cross-straits issue, a strategy of increasing integration on cultural, economic, and political basis will be used.
- Sensitivity to criticism regarding China's domestic politics. China understands that management of Hong Kong, Tibet, and Muslim populations in the Northwest is viewed as bellwether for future regional and international decisions.
- The political integration of Hong Kong will be complete. Former residents of Hong Kong will see their political rights erode, but the effect on the political landscape as a whole will be the speeding of political reform and the rise of a middle class that demands political accountability.

Japan

Japan's political role in NEA will remain reactive, low-key, and conservative. Sino-Japanese relations will emerge as the most crucial political relationship.

- As Japan ages, the younger generation will place less importance on Article Nine constraints of the Japanese Constitution. This will result in growing Japanese militarism within the region, and international adventurism.
- The Liberal Democratic Party will become increasingly dependant on former political adversaries to maintain its domination of domestic politics. This will result in political accountability and reform movements in key areas, such as government spending and the financial sectors.

North Korea

A decade of isolation and economic devastation, and the movement of former Communist allies to free markets, will result in:

- Growing presence and influence of soft liners within the Communist party.
- Positive response to South's Korea's Sunshine Policy, in an attempt to avoid the costs of a political "hard landing."

North and South Korea

The presidency of Roh Moo-hyun will mark a transition away from politics dominated by political personalities. South Korea will experience:

- Increasing pressure from the middle class, as well as from labor unions, will fuel political reform.
- The decreasing dependence on the US military for defense against North Korea will force South Korea into a larger regional role.
- Preoccupation and economic pressure relating to reunification, will limit South Korea's regional leadership.

Taiwan

The showdown between the Kuomintang (KMT)-People's First Party (PFP) coalition and the Democratic People's Party (DPP) in the 2004 presidential elections will see:

- The DDP's Chen Shui Bian and Lee Tung Hui of the KMT will remain political forces on the domestic political landscape. Increasing pressure to address economic performance and the hemorrhaging of foreign investment on all parties, however, will become key issues brought to bear by the voting population.
- The Taiwanese population will continue to support the "status quo," stance on reunification; bifurcation between independence and Taiwanese identity occurs.
- Business will mount increasing pressure on the government to move forward on establishing continuous direct access via the Three Links to dramatically reduce transaction costs. This will serve to temper domestic politics and increase political cross-Strait integration via inter-governmental agencies.

Implications for Business

- NEA will become a safer, more stable region in which to do business.
- The movements of democratization will create upper and middle classes eager to engage in a growing number of business activities and opportunities.
- Lobbying via intergovernmental agencies will provide opportunities to form cross-border business agreements, and lower transaction costs.

ECONOMIC OUTLOOK FOR NEA

Overview of Economic Observations

- Accelerating integration and reform as a result of the 1997 East Asian financial crisis and inter-governmental organizations.
- Inter-region trade will rival Europe and the US as chief export markets.
- Difficulties arise from the lack of a large homogenized regional market.
- Absence of a regional monetary system prevents complete growth.

Key Considerations

China

Ascendancy as the regional economic locomotive:

- Shift from labor-incentive industries to value-add activities such as research and design.
- Capital-intensive industries continue to demand high levels of FDI.
- Growing gap between local domestic economic needs and centrally planned economy.
- The position of the RMB as a regional currency will rise, demanding release of strict currency controls. Expect it to be managed against the Euro, US dollar, and a basket of regional currencies.

Japan

A period of reform, characterized by:

- Continued role as a capital provider despite weak financial structures and poor economic growth.
- Decreasing importance as an export market for regional goods.
- Major shift in consumers' acceptance of foreign goods and services.

South Korea

- *Chaebol*-driven economy replaced by outside entry into financial/equity markets.
- Rise as Asian innovators in bio- and nano-technology.

Taiwan

Transitional period resulting in:

- Increased dependence on cross-Strait integration, with danger of "hollowing out" domestic industrial base.
- Shift to increasingly technical research and design and service activities.
- Loss to China in competition as FDI destination.

Related Issues for Business

- Demand for strong regional capital markets will increase.
- Demands for skilled labor will remain high during the decade; costs will also rise.
- Growing middle-class segments provide opportunities for consumer goods.
- Promotion of inter-governmental agencies to address growing energy concerns.
- WTO entry and globalization will force NEA shift to higher value-add activities.

SOCIAL/CULTURAL OUTLOOK FOR NEA

Overview of Social/Cultural Observations

- A more integrated NEA, due to globalization.
- Aging populations will strain existing social structures.
- Income inequality – an important challenge in maintaining societal harmony.

Key Considerations

Education

Long seen as the key role in developing the economies, education will continue to play a dominant role.

- Increase relevancy in the move towards the technological arena.
- The next 10 years will therefore see more alliances among research entities towards the betterment of scientific and technological advancement.
- More efforts will be focus on the nurturing of business, professional, and entrepreneurial skills needed to improve competitiveness in the increasing global arena.
- More efforts on education will be observed in the professional area like law, accounting and financial skills and away from the more traditional fields like manufacturing.
- At the same time, competition for higher education will increase.

Population

The ramifications of China's One-child policy will come to fruition. The results will be:

- A smaller, younger population supporting a larger, older population
- An increase in women's influence on society as choices regarding selection of partners increases.
- An increase in aggressive and violent behavior as the young, single male population increases.

Income and Savings

With increased competition and the opening up of new channels of income distribution will pose conflicting social choices:

- Income disparity will become more apparent, between the "have" and "have not" populations giving rise to social friction.
- Increased consumer expenditure, hankering towards a more affluent lifestyles.
- Overall domestic savings are likely fall.
- Younger generations will grow increasingly dependent on consumer credit.

Related Issues for Business

- Demand for higher wages will strengthen labor unions.
- Human resources will be readily available.
- Opportunities in managed elderly care industries.

POLITICAL OUTLOOK FOR SEA

Overview of Political Observations

- Despite pockets of instability SEA continues to develop democratic political structures.
- ASEAN expansion will facilitate greater stability within the region.
- Territorial disputes remain major hurdles and be used to cement domestic support.
- Personality-driven politics will remain a feature of the SEA political landscape.
- Australia's integration with SEA will grow, bringing higher levels of political cooperation.

Key Considerations

Cambodia

- Departure from the monarchy will speed democratization.
- Increasing influence of common law and growing strength of legislative bodies will enable Cambodia to address key economic and social issues.

Indonesia

- Authoritarian methods will become frequent to limit current separatist movements.
- At the same time, regional autonomy will be slowly rolled out to far-flung parts of the state.
- Cronyism and corruption will continue to dominate Indonesia politics.
- Military and police accountable for human rights violations.

Malaysia

Domestic political landscape will be tumultuous in the post-Mahatir era, resulting in:

- Growing jurisdictional disputes with neighbouring states.
- Decreasing political influence within SEA and its inter-governmental organizations.

Myanmar

- Despite international pressure, the ruling military junta will remain in control in order to manage boundary disputes, ethnic guerrilla rebels and drug trafficking.

Philippines

- Domestic political strife in the face of minority insurgencies.
- Increasing dependence on the US.

Singapore

- The People's Action Party will encounter stiffening opposition.

Issues for Business

- Personality politics will continue to be an entry barrier.
- Cooperation among SEA community will require levelling of business offers.

ECONOMIC OUTLOOK FOR SEA

Overview of Political Observations

- A major divide will remain between heavily-industrialized and agrarian states.
- Economic cooperation will develop into formal trade agreements.
- SEA exports will flow to China, India, Korea, and Japan in increasing numbers.
- Less-developed states in SEA will become prospective low-cost industrial bases.

Key Considerations

- An ASEAN trading bloc will be established by 2020 to compete with emerging giant markets like China and India
- Inter-governmental organizations will succeed in the elimination of inter-region duties by 2015.
- SEA states will continue to liberalize investment regimes to attract FDI.
- Regional standards will emerge to lower transaction costs.
- SEA economies will develop in two tiers: First-tier members will move from a manufacturing-based to high technology economies. Second-tier members will struggle with the shift from agrarian models of +40% of GDP to industrialized economies.

Issues for Business

- The transaction costs of moving of goods and services between SEA states will decrease.
- Economic stability will make SEA a bright destination.

SOCIAL/CULTURAL OUTLOOK FOR SEA

Overview of Social/Cultural Observations

- Economic and information development will promote the convergence of social norms.
- Regionalism will give way to cooperation in face of increasing uncertainty.
- Standard of living gaps among SEA countries will be narrowed.
- Integration of SEA will minimize terrorism as a social/political tool.

Key Considerations

- Quality of the workforce, particular that of Cambodia, Myanmar and Laos, will be improved by promoting and investing in education. Primary school enrolment rates in developing SEA countries will achieve 90-100% levels. Secondary school enrolment rates in Cambodia, Myanmar and Lao will rise from 17-36% in to more than 60% in the coming decade.
- Trans-boundary environmental issues will become more important as SEA populations demand better standards of living.
- Laws and regulations on labor management and wages will be established in less developed SEA countries resulting in regional standardization.
- The cultural heritage of SEA will be better conserved, promoted and managed via greater awareness, ability to draw tourist industry, and technological advances.

Related Issues for Business

- Improved workforce will increase productivity and product quality. This will also allow companies to move up the product value chain.
- Prepare for the next industrial migration. Look for opportunities to shift industrial bases to second-tier SEA members such as Cambodia, Laos, and Myanmar.
- Companies should be sensitive to the unique social and cultural identities of different countries.
- Engage in labor discussions at regional/global levels.

POLITICAL OUTLOOK FOR SCA

Overview of Political Observations

- The Kashmir conflict remains a threat to peace in the Indian subcontinent, especially if fundamentalists gain significant power over the political landscape.
- India will emerge as a regional superpower. This may cause a rivalry between the US, India, Pakistan, and China that must be dealt with carefully.
- Minor disputes and conflicts will occur but will not threaten SCA in general.

Key Considerations

India

- Still separatist activities related to religion in India threatening the coherence of the country as a whole (Jammu, Kashmir, Punjab).
- Unresolved border disputes with China, Pakistan, and Bangladesh will require the expenditure of significant political capital.
- The public will continue to view Pakistan as enemy No. 1, but favour a peaceful resolution of the conflict.

Pakistan

- Fundamentalism will be a major hurdle for democratization. The significance of the Shari'a Law and fundamentalist control over parts of the military and the secret service will be aggravate this problem.
- Pakistan's future will depend on whether a strong government is able to control its population (like the one of Gen. Musharraf). The alternative is a weak government and an "Islamisation" of Pakistan with Pakistan being the holder of the "Islamic Bomb".
- Pakistan, and China will attempt to inhibit India on her way to take up an "important place" in the South Asia region.
- Countries in South Asia will continue to generally promote individual rights over community rights.

Former Soviet Republics

- Kazakhstan and Kyrgyzstan suffer from autocratic regimes, but they are politically quite stable. They will continue to develop with a possibility of slow democratization until 2013.
- These republics will strengthen relations with China.
- Tajikistan which has experienced a five years civil war is still threatened by desegregation due to inter-ethnic and inter-religious conflicts. Efforts will be made to control its border to neighbouring Afghanistan.

Related issues for business

- Countries with oil & gas resources are Pakistan, Bangladesh, Kazakhstan, Tajikistan.
- India and China will have to import large quantities of oil in the coming years and depend on the oil resources of South East Asia and the Near East.

ECONOMIC OUTLOOK FOR SCA

Overview of Economic Observations

- Large infrastructure deployments will result in increased economic power.
- Radical shifts from agrarian to industrialized economies.
- Natural resources will become a source of increasing economic gain.

Key Considerations

- Pro-business power and liberal trade rules will result in increased trade between India, Bangladesh, Sri-Lanka and Pakistan.
- Increasing automobile dependence in India will allow a boom in car manufacturing, natural gas production, and infrastructure improvements.
- The sub-continent will be fully wired by 2013, increasing consumer power among the 400-million-strong Indian middle-class population.
- Many parts of the sub-continent will bypass the industrial revolution by moving directly from agrarian to into high-tech driven economies.
- Trading between India and China will surpass the US\$100 billion level and result in +30% of the inter-Asia trade.
- Supply of oil and gas from the Central Asian states will remain critical. Cooperation between national oil companies from Pakistan and India and generate positive revenues and wealth on their pipeline path.
- The de-socialization of the India economy will continue. Multinational Indian companies will command an ever-important presence on the world stage.
- Corruption will remain a problem but in a smaller scale after the removal of red tape limiting business, reduction of Import taxes and the WTO application of low tariffs.
- Natural resources within India will become increasingly important. Water rights will continue to be a dominant domestic concern.

Related issues for Business

- Oil needs in South Asia have been reduced with the continued implementation of CNG gas replacement and the conversion of all the Bus and personal carrier fleet.
- Domestic spending by Pollution control and environment policies have helped the Indian Sub-continent to save on water consumption and avoid a new war on Water with India consuming the largest quantity of Water world wide as a country and over 200 liters per day per person on par with all OCDE countries.
- Increased consumer spending will be visible in SCA as the Indian middle class grows and the populations of Central Republics reap the benefit of oil proceeds.

SOCIAL/CULTURAL OUTLOOK FOR SCA

Overview of Social/Cultural Observations

- The continued population growth of India vs. rest of greying world.
- Religion continues to be an important aspect the daily lives of the populace.
- A pronounced disparity of income continues.
- Social divisions will remain an important aspect of interaction.
- Clash of middle class Materialism and Fundamentalism of the poor

Key Considerations

- A pronounced disparity of income continues as the business class prevails and the bullock state economies continue to struggle. This will continue to create a poorer rural population that lags the development curve. This in turn has the potential to destabilize the social harmony if the government do not address it by exerting its power and control.
- The clash of Materialism of the middle class and Fundamentalism of the poor will continue until governments are able to focus more resources into the rural periphery.
- Basic food, water and healthcare has improved through government and international efforts. Major disease like AIDS continue to plague the poor but contained to a manageable level. Efforts to increase food and water supply slowly but surely increase the life expectancy rate.
- The growth of the Indian populace is now rivalling that of China and will overtake China in the following decade. This creates both a major marketplace as well as employment pressures. The exodus of Indian professionals out of the country will continue.
- The Bollywood film industry will command a greater audience than Hollywood. The basic good vs. bad theme endures itself to the rest of Asia and the world, adding to its growing popularity.
- Religion continues to dominate the way of life and serves as both a flashpoint between sectors as well as preserving the way of life. The poor continues to be exploited to religious fanaticism which poses a regional threat.
- The oil reserves in Kazakhstan, Tajikistan and surrounding states have raised the standard of living but socially, they continue to be internally focused and withstand the onslaught of western culture.

Impact to Business

- Focus on tapping the growing material needs of the middle class. Potentially, India will outgrow China having the dual effect of creating a huge marketplace as well as an abundance of skilled workforce.
- Be aware of continued security risks in the region, due to the potentially flashpoints created by Fundamentalism and income disparity.
- The oil factor will be an economic stabilizer for this region when countries collaborate to maximize the returns on this natural resource.

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